

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name County of Osceola, Michigan	County Osceola
Audit Date 12/31/05	Opinion Date 5/25/06	Date Accountant Report Submitted to State: 6/29/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature <i>Anderson Tackman & Co PLC</i>		Date 6/29/06	

COUNTY OF OSCEOLA, MICHIGAN

BASIC FINANCIAL STATEMENTS

December 31, 2005

OSCEOLA COUNTY, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

COMMISSIONER	DISTRICT	#1	MARK BROCK
COMMISSIONER	DISTRICT	#2	ELMO HOAGLUND
COMMISSIONER	DISTRICT	#3	GLORIA EISENGA
COMMISSIONER	DISTRICT	#4	RONALD STRUBLE
COMMISSIONER	DISTRICT	#5	ROGER FABER
COMMISSIONER	DISTRICT	#6	DAVID BROOKS
COMMISSIONER	DISTRICT	#7	LARRY EMIG

APPOINTED/ELECTED OFFICIALS

COUNTY COORDINATOR	SUSAN VANDERPOL
COUNTY TREASURER	CAROL J. HALLADAY
COUNTY CLERK	KAREN BLUHM

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
of the Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Osceola's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Osceola County Road Commission, which represent 99% of the assets and revenues of the Discretely Presented Component Units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, is so far as it relates to the amounts recorded for the Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2006 on our consideration of the County of Osceola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparisons as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Osceola's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements of the County of Osceola. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 25, 2006

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

A few of the general highlights of 2005 were:

- Total net assets were \$12,068,257.
- Governmental activities net assets were \$5,875,281.
- Business-type activity net assets were \$6,192,976.
- Component Unit net assets were \$10,406,587.

There were increases of \$382,156 and \$273,215 in net assets in the governmental activities and business-type activities respectively. A gain of \$1,368,661 in net assets was realized in the Component Units.

In a condensed format, the table below shows the net assets of Osceola County.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 13,539,833	\$ 11,075,404	\$ 5,965,713	\$ 5,691,273	\$ 19,505,546	\$ 16,766,677
Noncurrent Assets	<u>3,625,910</u>	<u>5,380,969</u>	<u>229,333</u>	<u>230,062</u>	<u>3,855,243</u>	<u>5,611,031</u>
Total Assets	<u>17,165,743</u>	<u>16,456,373</u>	<u>6,195,046</u>	<u>5,921,335</u>	<u>23,360,789</u>	<u>22,377,708</u>
Current Liabilities	5,753,603	5,972,020	2,070	1,571	5,755,673	5,973,591
Long-Term Debt Outstanding	<u>5,536,859</u>	<u>4,991,228</u>	-	-	<u>5,536,859</u>	<u>4,991,228</u>
Total Liabilities	<u>11,290,462</u>	<u>10,963,248</u>	<u>2,070</u>	<u>1,571</u>	<u>11,292,532</u>	<u>10,964,819</u>
Net Assets						
Invested in Capital Assets -						
Net of Debt	1,739,232	1,209,484	229,333	230,062	1,968,565	1,439,546
Restricted	1,861,005	1,563,268	-	-	1,861,005	1,563,268
Unrestricted (Deficit)	<u>2,275,044</u>	<u>2,720,373</u>	<u>5,963,643</u>	<u>5,689,702</u>	<u>8,238,687</u>	<u>8,410,075</u>
Total Net Assets	<u>\$ 5,875,281</u>	<u>\$ 5,493,125</u>	<u>\$ 6,192,976</u>	<u>\$ 5,919,764</u>	<u>\$ 12,068,257</u>	<u>\$ 11,412,889</u>

The current level of unrestricted net assets for our governmental activities stands at \$2,275,044 million, or about 22% of expenditures. This is within the targeted range set by the County Board of Commissioners during its last budget process.

Net Assets of the governmental activities increased by \$382,156. Net Assets of the business-type activities increased by \$273,212.

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues						
Charges for Services	\$ 1,809,098	\$ 1,810,691	\$ 490,607	\$ 293,039	\$ 2,299,705	\$ 2,103,730
Operating Grants and Contributions	1,750,807	1,159,874	-	-	1,750,807	1,159,874
Capital Grants and Contributions	-	73,180	-	-	-	73,180
General Revenues						
Property Taxes	6,309,356	6,270,609	-	-	6,309,356	6,270,609
State-Shared Revenues	-	360,563	-	-	-	360,563
Unrestricted Investment Earnings	173,061	118,142	121,975	215,309	295,036	333,451
Transfers and Other Revenue	817,306	930,233	(128,779)	(228,857)	688,527	701,376
Total Revenues	10,859,628	10,723,292	483,803	279,491	11,343,431	11,002,783
Program Expenses						
Legislative	67,768	62,065	-	-	67,768	62,065
Judicial	1,146,599	1,147,344	-	-	1,146,599	1,147,344
General Government	2,114,924	1,999,438	-	-	2,114,924	1,999,438
Public Safety	3,110,290	2,661,293	-	-	3,110,290	2,661,293
Public Works	56	-	-	-	56	-
Health and Welfare	2,727,793	2,552,635	-	-	2,727,793	2,552,635
Other Expenses	1,018,211	815,211	-	-	1,018,211	815,211
Interest Expense – Unallocated	291,831	139,493	-	-	291,831	139,493
Tax Collection	-	-	7,311	6,070	7,311	6,070
Parks and Recreation	-	-	160,635	148,000	160,635	148,000
Commissary	-	-	42,645	44,848	42,645	44,848
Total Expenses	10,477,472	9,377,479	210,591	198,918	10,688,063	9,576,397
Changes in Net Assets	382,156	1,345,813	273,212	80,573	655,368	1,426,386
Net Assets – Beginning	5,493,125	4,147,312	5,919,764	5,839,191	11,412,889	9,986,503
Net Assets – Ending	\$ 5,875,281	\$ 5,493,125	\$ 6,192,976	\$ 5,919,764	\$ 12,068,257	\$ 11,412,889

Governmental Activities

Revenue from property taxes increased less than 1% from the previous year, gaining \$38,747, which was \$151,827 lower than the previous year's gain. This reduction over prior years' gains was a result of Tax Tribunal decisions as well as the State eliminating Revenue Sharing to counties with implementation of the early July tax collection and the creation of the Revenue Sharing Reserve Funds.

Health and Liability insurance costs were the major significant expense increases over the previous year. Health Insurance cost rose approximately 10.5 %. This was budgeted for and employees are contributing through premium cost sharing. Self-funding of prescription drugs is decreasing the costs of prescriptions and providing some savings. Fiscal year 2005 saw a 6% decrease in the cost of prescription drugs over 2004 expenditures. Because of the calendar fiscal year, health insurance cost projections can only be estimated during the budget process for the next fiscal year budget cycle. Once the renewal information is received, adjustments are made. The opening for the employees to make health insurance choices comes after the budget forecasts near the start of the fiscal year so true costs are not solidified until then but are consistent throughout the entire year. Liability insurance costs have increased 12.3 % which was less than the previous adjustment of 13.4 %. This was a \$20 thousand raise in premiums. The major funds contributed towards liability costs in 2005 but the General Fund absorbed more than 80% of it.

The wage rate increases were three percent for Sheriff's road patrol deputies and Emergency Medical Services paramedics, 2.5% for general non-union employees, and 2.25% for corrections officers for fiscal year 2005. The union contracts vary between three and four year agreements with wage increases varying among the union contracts, some tied with health and retirement benefit level changes.

The county continues to strive to update technology and streamline technology functions. A technology coordinator was hired in November of 2005 to oversee the county's various systems and work with software vendors. The county needs to replace servers and improve networking capabilities with proposed changes to occur in 2006.

Business-Type Activities

The County business-type activities are multi-faceted. They range from Tax Collection, County Parks, and Sheriff Commissary. The Tax Collection funds significantly support the General fund. Charges for services and fees support the operations of the County Parks and the Sheriff Commissary. As with its other services, business-type activities are broad based and in many cases, the predominant provider of that service for the citizen.

The County's Funds

Our analysis of the County's major funds begins on page 10 following the entity wide financial statements. The individual fund financial statements provide detail information about the most significant funds, not the County as a whole. The County Board of Commissioners creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2005 include the General Fund, which includes the Sheriff's Department Road Patrol millage, Revenue Sharing Reserve, EMS, Building Authority, Construction, and the Delinquent Tax Funds. Funds supported by special millages consist of the Commission on Aging Funds and Emergency Medical Services Fund.

The General Fund supports most of the County's governmental services. The costliest are the police, courts, and law enforcement functions. The Jail is augmented with the renting of inmate space (beds) to other governmental entities. The Delinquent Tax fund is supported by interest and fees from the collection of taxes. The Commission on Aging Funds are used to provide services to senior and disabled populations and to match grant dollars for local support.

General Fund Budgetary Highlights

The General Fund realized \$703,799 more in revenues than anticipated for the fiscal year. The General Fund operations also expended \$276,850 less than appropriated. Operating Transfers were less than budgeted for both revenues and expenditures and resulted in a positive net budget variance of \$443,122.

All of the General Fund services departments expended less than the budgeted amount for departmental operations in 2005. Additional revenues over projected budgetary amounts were realized in the areas of Taxes, Licenses and Permits, State Sources, Refunds and Reimbursements, and Interest & Rentals. Less was received than budgeted from Federal Sources, Local Sources, and Charges for Services. Elected Officials and Department Heads continue to exhibit diligence across the board of keeping within budget parameters or identifying problems before they occur.

Over the course of the year the County Board amended the General Fund budget to reflect adjustments in revenues that developed in the year. The major adjustments were in Revenue Sharing, Public Defender, Professional Services, Elections, Treasurer's Department, Sheriff Road Patrol, Emergency Management, 911 Operations, Insurance and Bonds, and Appropriations.

Other Funds

The following funds ended the year with a fund balance of ten percent or greater: Building Inspections, Emergency Medical Services, Michigan Justice Training, Friend of the Court Fund, Community Corrections, Register of Deeds Automation, Public Improvement, Budget Stabilization, Officer Training, Drug Enforcement, DARE Operations, Commission on Aging, Dept. of Human Services, Veteran's Trust, Equipment & Maintenance, Housing Grant and General Fund. The Vested Benefit Fund also increased its reserves. All of this provides for stability, future flexibility, and a mechanism for setting aside funds for services and equipment replacement.

In 2004, after ten years of using a contract service for billing, the Emergency Medical Services department brought the service billing process back in-house. A significant investment of \$70,000 was made into the project, with funding coming from the General Fund. The Emergency Medical Services Fund was able to return \$30,000 of the loan to the General Fund in 2004 and the remaining \$40,000 in 2005.

There were reductions in Child Care costs and Friend of the Court. The Friend of the Court services were transferred from the General Fund to its own separate Fund in 2004 in order to allow better analysis of revenues and expenditures and track specific program costs.

Capital Asset and Debt Administration

During the 2005 period, the County invested or acquired \$3,855,243 in capital assets that meet the dollar threshold of the reporting requirement. These purchases included the construction of a county building to house emergency management and building inspector, building improvements at the county park, six vehicles, one ambulance, as well as other equipment.

The County reduced its bond debt load by \$150,000 in principal payments, but increased it by \$725,000 for the Health and Human Services building in 2005 ending with a debt balance of \$5,525,000.

Economic Factors and Next Year's Budgets and Rates

This year produced a dichotomy of events. There was continued fund stabilization in all funds. There was investment in an equipment replacement fund in two of the smaller funds as was appropriated. There were monumental technological improvements in several areas that affect County operations. This all reflected a continued and more distinct upward trend in the County's financial posture. State Revenue Sharing further complicated future funding as the State's plan, where it provided provisions for funds that would be anticipated, left cash flow and potential public approval issues that will yet to be faced. We were pleased to end the current year with very healthy fund statuses in all funds and are still optimistic that the future will be proactive toward growth and progress.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Coordinator's Office at 301 West Upton Avenue, Reed City, Michigan 49677.

Basic Financial Statements

County of Osceola, Michigan

Statement of Net Assets December 31, 2005

	Primary Government			Component
	Governmental	Business-type	Totals	Units
	Activities	Activities		
ASSETS:				
Current:				
Cash & Equivalents	\$ 2,550,080	\$ 3,420,185	\$ 5,970,265	\$ 995,795
Investments	250,000	1,720,584	1,970,584	-
Receivables:				
Accounts	141,688	-	141,688	706,626
Taxes	6,437,879	725,920	7,163,799	-
Interest	-	86,026	86,026	-
Leases	3,675,000	-	3,675,000	-
Prepaid Expenses	153,617	-	153,617	-
Due from Governmental Units	331,569	12,998	344,567	14,062
Inventories	-	-	-	272,470
Noncurrent Assets:				
Capital Assets (Not Depreciated)	835,959	37,550	873,509	5,121,157
Capital Assets (Net of Accumulated Depreciation)	2,789,951	191,783	2,981,734	8,145,849
TOTAL ASSETS	\$ 17,165,743	\$ 6,195,046	\$ 23,360,789	\$ 15,255,959
LIABILITIES:				
Current Liabilities:				
Accounts Payable	161,169	-	161,169	424,917
Accrued Liabilities	180,898	1,334	182,232	21,778
Accrued Interest Payable	49,748	-	49,748	-
Due to Governmental Units	-	736	736	163
Deferred Revenue	5,167,157	-	5,167,157	7,232
Capital Leases	29,631	-	29,631	75,000
Installment Loans	-	-	-	95,266
Bonds Payable	165,000	-	165,000	2,614
Noncurrent Liabilities:				
Vested Employee Benefits	169,812	-	169,812	330,124
Capital Leases	7,047	-	7,047	3,600,000
Installment Loans	-	-	-	292,278
Bonds Payable	5,360,000	-	5,360,000	-
TOTAL LIABILITIES	11,290,462	2,070	11,292,532	4,849,372
NET ASSETS:				
Invested in Capital Assets (net of related debt)	1,739,232	229,333	1,968,565	9,204,462
Restricted for County Road	-	-	-	1,194,775
Restricted	1,861,005	-	1,861,005	-
Unrestricted	2,275,044	5,963,643	8,238,687	7,350
TOTAL NET ASSETS	\$ 5,875,281	\$ 6,192,976	\$ 12,068,257	\$ 10,406,587

See accompanying notes to financial statements.

County of Osceola, Michigan

Statement of Activities Year Ended December 31, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 67,768	\$ -	\$ -	\$ -	\$ (67,768)	\$ -	\$ (67,768)	\$ -
Judicial	1,146,599	447,194	269,467	-	(429,938)	-	(429,938)	-
General Government	2,114,924	416,785	257,467	-	(1,440,672)	-	(1,440,672)	-
Public Safety	3,110,290	289,685	488,243	-	(2,332,362)	-	(2,332,362)	-
Public Works	56	-	-	-	(56)	-	(56)	-
Health & Welfare	2,727,793	655,434	690,879	-	(1,381,480)	-	(1,381,480)	-
Other Expenses	1,018,211	-	44,751	-	(973,460)	-	(973,460)	-
Interest Expense - Unallocated	291,831	-	-	-	(291,831)	-	-	-
Total Governmental Activities	10,477,472	1,809,098	1,750,807	-	(6,917,567)	-	(6,625,736)	-
Business-type activities:								
Tax Collection	7,311	241,469	-	-	-	234,158	234,158	-
Parks & Recreation	160,635	201,095	-	-	-	40,460	40,460	-
Commissary	42,645	48,043	-	-	-	5,398	5,398	-
Total Business-type Activities	210,591	490,607	-	-	-	280,016	280,016	-
Total Primary Government	\$ 10,688,063	\$ 2,299,705	\$ 1,750,807	\$ -	(6,917,567)	280,016	(6,345,720)	-
Component Units:								
Road Commission	\$ 3,403,512	\$ 11,479	\$ 3,415,121	\$ 1,298,530				1,321,618
Economic Development	74,270	-	18,720	-				(55,550)
Drain Revolving	14,702	14,663	-	-				(39)
Total Component Units	3,492,484	26,142	3,433,841	1,298,530				1,266,029
Total	\$ 14,180,547	\$ 2,325,847	\$ 5,184,648	\$ 1,298,530				
General Revenues and Transfers:								
Taxes					6,309,356	-	6,309,356	-
Investment Earnings (Loss)					173,061	121,975	295,036	50,963
Gain on Equipment Disposal					-	-	-	10,439
Other					726,018	3,740	729,758	-
Transfers - net					91,288	(132,519)	(41,231)	41,231
Total General Revenues and Transfers					7,299,723	(6,804)	7,292,919	102,633
Changes in Net Assets					382,156	273,212	655,368	1,368,662
Net Assets - Beginning					5,493,125	5,919,764	11,412,889	9,037,925
Net Assets - Ending					\$ 5,875,281	\$ 6,192,976	\$ 12,068,257	\$ 10,406,587

County of Osceola, Michigan

Balance Sheet Governmental Funds December 31, 2005

	General	Revenue Sharing Reserve	EMS	Building Authority	Construction	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash & Equivalents - Unrestricted	\$ 719,395	\$ 506,960	\$ 63,475	\$ -	\$ 15,989	\$ 1,244,261	\$ 2,550,080
Investments	250,000	-	-	-	-	-	250,000
Receivables:							
Accounts	230	-	137,903	-	-	3,555	141,688
Taxes	4,265,799	1,168,925	557,327	-	-	445,828	6,437,879
Leases	-	-	-	3,675,000	-	-	3,675,000
Prepaid Expenditures	153,617	-	-	-	-	-	153,617
Due from Other Funds	71,581	-	-	-	-	-	71,581
Advances From Other Funds	2,000	-	-	-	-	-	2,000
Due from Governmental Units	231,382	-	-	-	-	100,187	331,569
TOTAL ASSETS	\$ 5,694,004	\$ 1,675,885	\$ 758,705	\$ 3,675,000	\$ 15,989	\$ 1,793,831	\$ 13,613,414
LIABILITIES:							
Due to Other Funds	\$ -	\$ -	\$ 34,762	\$ -	\$ -	36,819	\$ 71,581
Accounts Payable	55,609	-	2,199	-	15,989	87,372	161,169
Accrued Liabilities	118,882	-	28,904	-	-	33,112	180,898
Advances to Other Funds	-	-	-	-	-	2,000	2,000
Deferred Revenue	4,164,002	-	557,327	3,675,000	-	445,828	8,842,157
TOTAL LIABILITIES	4,338,493	-	623,192	3,675,000	15,989	605,131	9,257,805
FUND BALANCES:							
Reserved	-	1,675,885	-	-	-	185,120	1,861,005
Unreserved:							
Undesignated	1,353,511	-	135,513	-	-	-	1,489,024
Designated	2,000	-	-	-	-	1,003,580	1,005,580
TOTAL FUND BALANCES	1,355,511	1,675,885	135,513	-	-	1,188,700	4,355,609
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,694,004	\$ 1,675,885	\$ 758,705	\$ 3,675,000	\$ 15,989	\$ 1,793,831	
Reconciliation to amounts reported for governmental activities in the statement of net assets:							
Capital assets used by governmental activities are not financial resources and therefore are not reported in the funds.							3,625,910
Long term notes payable for governmental activities not due and payable in the current period.							(5,525,000)
Compensated absences liability not recognized in the funds.							(169,812)
Capital leases payable for governmental activities not due and payable in current period.							(36,678)
Deferred revenue on lease receivable is recognized as revenue under full accrual.							3,675,000
Accrued interest expense on long-term debt not recognized in the funds.							(49,748)
Net assets of governmental activities							\$ 5,875,281

County of Osceola, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds Year Ended December 31, 2005

	General	Revenue Sharing Reserve	EMS	Building Authority	Construction	Other Governmental Funds	Total Governmental Funds
REVENUES:							
Taxes	\$ 4,177,135	\$ 1,157,795	\$ 539,425	\$ -	\$ -	\$ 435,001	\$ 6,309,356
Licenses & Permits	49,599	-	-	-	-	-	49,599
Federal Sources	331,669	-	-	-	-	499,316	830,985
State Sources	354,567	-	6,300	-	-	494,122	854,989
Local Sources	23,465	-	-	251,015	27,554	13,814	315,848
Charges for Services	869,153	-	655,434	-	-	234,912	1,759,499
Refunds & Reimbursements	399,925	-	-	-	-	47,228	447,153
Interest & Rentals	137,692	17,410	10,203	-	15,631	25,355	206,291
Other Revenue	148,465	-	8,490	-	-	121,548	278,503
TOTAL REVENUES	6,491,670	1,175,205	1,219,852	251,015	43,185	1,871,296	11,052,223
EXPENDITURES:							
Legislative	67,768	-	-	-	-	-	67,768
Judicial	801,456	-	-	-	-	331,906	1,133,362
General Government	1,883,165	-	-	-	-	36,726	1,919,891
Public Safety	2,700,677	-	-	-	-	290,734	2,991,411
Public Works	56	-	-	-	-	-	56
Health & Welfare	57,122	-	1,165,579	-	-	1,492,850	2,715,551
Capital Outlay	-	-	49,356	251,015	1,616,663	976,817	2,893,851
Debt Service	-	-	-	-	-	150,552	150,552
Other Expenditures	901,550	-	-	-	-	18,667	920,217
TOTAL EXPENDITURES	6,411,794	-	1,214,935	251,015	1,616,663	3,298,252	12,792,659
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	79,876	1,175,205	4,917	-	(1,573,478)	(1,426,956)	(1,740,436)
OTHER FINANCING SOURCES (USES):							
Bond Proceeds	-	-	-	-	-	713,114	713,114
Operating Transfers In	547,520	-	40,000	-	10,209	695,609	1,293,338
Operating Transfers Out	(434,274)	(492,414)	(70,477)	-	-	(204,885)	(1,202,050)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	193,122	682,791	(25,560)	-	(1,563,269)	(223,118)	(936,034)
FUND BALANCES, JANUARY 1	1,162,389	993,094	161,073	-	1,563,269	1,411,818	5,291,643
FUND BALANCES, DECEMBER 31	\$ 1,355,511	\$ 1,675,885	\$ 135,513	\$ -	\$ -	\$ 1,188,700	\$ 4,355,609

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended December 31, 2005**

Net Changes in fund balances – total governmental funds \$ (936,034)

The change in net assets reported for governmental activities in the
Statement of Activities is different because:

Governmental funds reported capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is capitalized and the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.
This is the amount by which depreciation expense (\$352,904)
and loss on disposal of assets (\$3,946,997) exceeded capital outlays
of \$2,544,842. (1,755,059)

Repayment of bond principal is an expenditure in the governmental
fund but reduces the liability in the statement of net assets. 150,000

Receipt of bond proceeds is another financing source in the governmental
funds, but is recognized as an increase in liability on the statement of
net assets. (725,000)

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds, but rather
are deferred. 3,675,000

Repayment of capital lease is an expenditure in the governmental
fund but reduces liability in statement of net assets. 29,007

Under the modified accrual basis of accounting used in governmental
funds, expenditures are not recognized for transactions that are not
normally paid with expendable available financial resources. In the
statement of activities, however, which is presented on the accrual
basis, expenses, and liabilities are reported regardless of when financial
resources are available. In addition, interest on long-term debt is not
recognized under the modified accrual basis of accounting until due,
rather than as it accrues. This adjustment combines the following net
changes:

Compensated absences	(15,494)	
Accrued interest on bonds	<u>(40,264)</u>	
		<u>(55,758)</u>

Changes in net assets of governmental funds \$ 382,156

County of Osceola, Michigan

Statement of Net Assets Proprietary Funds December 31, 2005

	Enterprise Funds			Totals
	Prior Delinquent Tax	2004 Delinquent Tax	Other Funds	
ASSETS:				
Cash & Equivalents - Unrestricted	\$ 2,403,025	\$ 644,997	\$ 372,163	\$ 3,420,185
Investments	1,720,584	-	-	1,720,584
Receivables:				
Taxes	26,615	629,326	69,979	725,920
Interest	-	62,933	23,093	86,026
Due From Other Funds	1,172,400	-	-	1,172,400
Due From Others	-	-	12,998	12,998
Capital Assets - net	-	-	229,333	229,333
TOTAL ASSETS	\$ 5,322,624	\$ 1,337,256	\$ 707,566	\$ 7,367,446
LIABILITIES:				
Due to Others	736	-	-	736
Accrued Liabilities	-	-	1,334	1,334
Due to Other Funds	-	1,150,000	22,400	1,172,400
TOTAL LIABILITIES	736	1,150,000	23,734	1,174,470
NET ASSETS:				
Invested in Capital Assets (net of related debt)	-	-	229,333	229,333
Unrestricted	5,321,888	187,256	454,499	5,963,643
TOTAL NET ASSETS	\$ 5,321,888	\$ 187,256	\$ 683,832	\$ 6,192,976

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
Year Ended December 31, 2005**

	Enterprise Funds			
	Prior Delinquent Tax	2004 Delinquent Tax	Other Funds	Totals
OPERATING REVENUES:				
Charges for Services	\$ -	\$ 53,694	\$ 281,300	\$ 334,994
Interest & Rentals	-	117,939	37,674	155,613
Other Revenue	3,738	-	2	3,740
Total Operating Revenues	3,738	171,633	318,976	494,347
OPERATING EXPENSES:				
General & Administrative	-	-	203,280	203,280
Other Expenses	7,307	-	4	7,311
Total Operating Expenses	7,307	-	203,284	210,591
OPERATING INCOME (LOSS)	(3,569)	171,633	115,692	283,756
NON-OPERATING REVENUES (EXPENSES):				
Interest Earnings	93,340	15,623	13,012	121,975
Total Non-Operating Revenues (Expenses)	93,340	15,623	13,012	121,975
Income (loss) before transfers	89,771	187,256	128,704	405,731
Operating Transfers In	257,365	-	10,000	267,365
Operating Transfers Out	(142,519)	-	(257,365)	(399,884)
CHANGES IN NET ASSETS	204,617	187,256	(118,661)	273,212
NET ASSETS, JANUARY 1	5,117,271	-	802,493	5,919,764
NET ASSETS, DECEMBER 31	<u>\$ 5,321,888</u>	<u>\$ 187,256</u>	<u>\$ 683,832</u>	<u>\$ 6,192,976</u>

County of Osceola, Michigan

Statement of Cash Flows Proprietary Funds Year Ended December 31, 2005

	Enterprise Funds			
	Prior Delinquent Tax	2004 Delinquent Tax	Other Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received From Customers or Users	\$ 3,738	\$ 1,382,796	\$ 919,800	\$ 2,306,334
Cash Payments to Suppliers/Others	(15,401)	(1,903,422)	(394,356)	(2,313,179)
Internal Activity - Receipts (Payments) to Other Funds	655,603	1,150,000	(1,605,603)	200,000
Net Cash Provided (Used) by Operating Activities	643,940	629,374	(1,080,159)	193,155
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net Operating Transfers In (Out)	114,846	-	(247,365)	(132,519)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	114,846	-	(247,365)	(132,519)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net Sale or (Purchase) of Investments	(1,720,584)	-	-	(1,720,584)
Net Sale or (Purchase) of Capital Assets	-	-	(7,700)	(7,700)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,720,584)	-	(7,700)	(1,728,284)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Income	93,340	15,623	13,012	121,975
Net Cash Provided (Used) by Investing Activities	93,340	15,623	13,012	121,975
Net Increase (Decrease) in Cash and Equivalents	(868,458)	644,997	(1,322,212)	(1,545,673)
Balances - Beginning of the Year	3,271,483	-	1,694,372	4,965,855
Balances - End of the Year	\$ 2,403,025	\$ 644,997	\$ 372,160	\$ 3,420,182
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (3,569)	\$ 171,633	\$ 115,692	\$ 283,756
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	-	-	13,099	13,099
Loss on Disposal	-	-	(4,670)	(4,670)
(Increase) Decrease in Assets:				
Taxes Receivable	(8,094)	(629,326)	553,449	(83,971)
Interest Receivable	-	(62,933)	54,401	(8,532)
Due from Other Funds	655,603	-	-	655,603
Due from Others	-	-	(7,026)	(7,026)
Increase (Decrease) in Liabilities:				
Due to Other Funds	-	1,150,000	(1,805,603)	(655,603)
Accrued Liabilities	-	-	499	499
Net Cash Provided by Operating Activities	\$ 643,940	\$ 629,374	\$ (1,080,159)	\$ 193,155

County of Osceola, Michigan

Statement of Fiduciary Net Assets Fiduciary Funds December 31, 2005

	<u>Agency Funds</u>
ASSETS:	
Cash & Equivalents:	
Unrestricted	<u>\$ 818,372</u>
 TOTAL ASSETS	 <u><u>\$ 818,372</u></u>
 LIABILITIES:	
Accounts Payable	\$ 28
Due to Others	<u>818,344</u>
 TOTAL LIABILITIES	 <u><u>\$ 818,372</u></u>

Component Units

County of Osceola, Michigan

Statement of Net Assets Component Units December 31, 2005

	Road Commission	Economic Development Corporation	Revolving Drain	Totals
ASSETS:				
Current:				
Cash & Equivalents - Unrestricted	\$ 969,155	\$ 24,696	\$ 1,944	\$ 995,795
Accounts Receivable	706,626	-	-	706,626
Due from Governmental Units	-	6,432	7,630	14,062
Inventories	272,470	-	-	272,470
Noncurrent Assets:				
Capital Assets (not depreciated)	5,121,157	-	-	5,121,157
Capital Assets (net of accumulated depreciation)	8,145,849	-	-	8,145,849
TOTAL ASSETS	\$ 15,215,257	\$ 31,128	\$ 9,574	\$ 15,255,959
LIABILITIES:				
Current Liabilities:				
Accounts Payable	393,460	26,347	5,110	424,917
Accrued Liabilities	21,778	-	-	21,778
Due to Others	163	-	-	163
Deferred Revenue	5,337	-	1,895	7,232
Capital Leases	75,000	-	-	75,000
Performance Bonds Payable	2,614	-	-	2,614
Installment Loans	95,266	-	-	95,266
Total Current Liabilities	593,618	26,347	7,005	626,970
Noncurrent Liabilities:				
Capital Leases	3,600,000	-	-	3,600,000
Installment Loans	292,278	-	-	292,278
Vested Employee Benefits	330,124	-	-	330,124
Total Noncurrent Liabilities	4,222,402	-	-	4,222,402
TOTAL LIABILITIES	4,816,020	26,347	7,005	4,849,372
NET ASSETS:				
Invested in Capital Assets, net of related debt	9,204,462	-	-	9,204,462
Restricted for County Road	1,194,775	-	-	1,194,775
Unrestricted	-	4,781	2,569	7,350
TOTAL NET ASSETS	\$ 10,399,237	\$ 4,781	\$ 2,569	\$ 10,406,587

County of Osceola, Michigan

Statement of Activities Component Units Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Economic Development Corporation	Drain Revolving	
Road Commission:								
Public Works	\$ 3,403,512	\$ 11,479	\$ 3,415,121	\$ 1,298,530	\$ 1,321,618	\$ -	\$ -	\$ 1,321,618
Economic Development Corporation								
Economic Development	74,270	-	18,720	-	-	(55,550)	-	(55,550)
Drain Revolving								
Public Works	14,702	14,663	-	-	-	-	(39)	(39)
Total Component Units	<u>\$ 3,492,484</u>	<u>\$ 26,142</u>	<u>\$ 3,433,841</u>	<u>\$ 1,298,530</u>	<u>1,321,618</u>	<u>(55,550)</u>	<u>(39)</u>	<u>1,266,029</u>
General Revenues and Transfers:								
Investment Earnings					50,963	-	-	50,963
Gain on Equipment Disposal					10,439	-	-	10,439
Transfers In					-	41,231	-	41,231
Total General Revenues and Transfers					<u>61,402</u>	<u>41,231</u>	<u>-</u>	<u>102,633</u>
Changes in Net Assets					1,383,020	(14,319)	(39)	1,368,662
Net Assets - Beginning					9,016,217	19,100	2,608	9,037,925
Net Assets - Ending					<u>\$ 10,399,237</u>	<u>\$ 4,781</u>	<u>\$ 2,569</u>	<u>\$ 10,406,587</u>

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Osceola, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:

The County of Osceola, Michigan, is a public corporation created under the Constitution and Statutes of the State of Michigan and covers an area of approximately 576 square miles with the County Seat located in Reed City. The County operates under an elected Board of Commissioners (seven members) and provides services to its 23,197 residents (per 2000 census) in many areas, including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and cultural activities.

Component Units:

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

County of Osceola Building Authority – The Authority is an entity legally separate from the County. The Authority is governed by a board, appointed by the Commission and is reported as if it were part of the County's operations because its primary purpose is the procurement and management of debt financing for the County.

Discretely Presented Component Units

The component units column in the government-wide financial statements include the financial data of the other component units of the County. The following is a summary of the component units:

Osceola County Road Commission - The County Road Commission is considered part of the County reporting entity for financial reporting purposes. The Road Commission is governed by a three member board elected by electorate of Osceola County. The Road Commission may not issue debt or levy taxes without the approval of the County Board of Commissioners. However, this component unit of Osceola County has been audited and reported separately. Complete financial statements of the individual component unit can be obtained from the following:

Osceola County Road Commission
800 S. Chestnut
Reed City, MI 49677

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

County of Osceola Economic Development Corporation – The Corporation is a legally separate municipal corporation whose primary purpose is to promote economic development in the County of Osceola. The Board of the Economic Development Corporation is appointed by the Board of Commissioners. The Corporation's annual budget is subject to the approval of the Board of Commissioners and is financially accountable to the County.

Drain Revolving – Each drainage district is a separate legal entity with the power to contract, sue, be sued, hold, manage, and dispose of real and personal property etc. The full faith and credit of the County may be given for the debt of the drainage district.

Jointly Governed Organizations

Central Michigan Community Mental Health Authority – The County participates jointly in the operation of this Authority with four other area counties. All financial operations of the Authority are recorded in Isabella County. The County appropriated \$131,358 to the Authority for the year ended December 31, 2005.

Meceola Consolidated Central Dispatch Authority – Mecosta and Osceola Counties participate jointly in the operation of the Meceola Consolidated Central Dispatch Authority. Osceola County makes no appropriations to this Authority.

Central Michigan District Health Department – The County participates jointly in the operation of this Health Department with ten other area counties. All financial operations of the Health Department are recorded in Isabella County. The County appropriated \$150,185 to the Health Department of the year ended December 31, 2005.

Mecosta Osceola Transit Authority – The Transit Authority provides public transportation to the general public in Mecosta and Osceola counties. MOTA's a separate authority and is not a component unit of either county.

B – Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Current or Property Taxes

The County of Osceola property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Osceola as of the preceding December 31st and July 1st.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Although the County of Osceola's 2004 ad valorem tax is levied and collectible on December 1, 2004 and the 2005 ad valorem tax is levied and collectible on July 1, 2005, it is the County of Osceola's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax revolving fund within one year.

The 2004 taxable valuation of the County of Osceola totaled \$566,650,491, on which ad valorem taxes levied consisted of 6.4035 mills for the County operating, .7925 mills for Commission on Aging, .9984 mills for Road Patrol, .9907 mills for EMS, raising \$3,628,546, \$449,071, \$565,744, \$561,381, respectively. These amounts are recognized in the respective General and Special Revenue financial statements as tax revenue.

The July 1, 2005 taxable valuation of County of Osceola totaled \$596,513,644, on which as valorem taxes levied consisted of 2.1345 mills for the General Fund, this amount is recognized in the General Fund financial statements as revenue.

The County also raised \$1,168,925 for the Revenue Sharing Reserve Fund. This money was 1/3 of the County's operating levy in 2004.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Revenue Sharing Reserve Fund

This Fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

Emergency Medical Services Fund

This Fund accounts for emergency medical services provided from charges for services, grants, Medicare and Medicaid reimbursements, and insurance reimbursements.

Construction Fund

This Fund accounts for the construction and renovation of a new county road commission building.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Building Authority**

This fund accounts for the repayment of building authority debt to construct road commission buildings.

The County reports the following major proprietary funds:

2004 Delinquent Tax Fund

This fund accounts for the collection of delinquent taxes.

Prior Delinquent Tax Fund

This fund accounts for the collection of prior year delinquent taxes.

Additionally, the County reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D - Assets, Liabilities, and Net Assets or Equity:**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st and July 1st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Certain insurance premiums and other expenditures are recorded as prepaid assets in the fund level and government-wide financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Roads	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vested Benefits Payable – County General Employees - The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. The annual vacation benefits earned by each employee during the prior 12 months are credited to the employee on their anniversary date of hire.

Employees' vacation and sick leave benefits are earned at varying amounts depending on various union and non-union personnel policies. Employees may accumulate and utilize vacation leave until termination of employment, at which time they will be compensated in full for the unused portion or per policy or contract.

Employees accumulate or are awarded sick days based on county policy or union contract. General non-union employees hired after September 1, 2002, and union employees are awarded a set number of sick days January 1st of each year, with the ability to carry over days into the next fiscal year per policy or union contract. The balance of unused sick time at year end is paid out to employees in January of the following year based on policy or union contract language.

Non-union employees hired prior to September 1, 2002 accumulate sick time at the rate of one day per month with a maximum accumulation of a total of 150 days. Upon separation of employment, the employee is paid 50% of the unused sick leave bank up to a maximum of seventy-five days.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General Fund was modified throughout the year through various budget amendments.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents - Unrestricted	\$ 2,550,080	\$ 3,420,185	\$ 5,970,265	\$ 818,372	\$ 995,795
Total	<u>\$ 2,550,080</u>	<u>\$ 3,420,185</u>	<u>\$ 5,970,265</u>	<u>\$ 818,372</u>	<u>\$ 995,795</u>

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 5,968,205	\$ 818,372	\$ 995,695
Petty Cash and Cash on Hand	2,060	-	100
Total	<u>\$ 5,970,265</u>	<u>\$ 818,372</u>	<u>\$ 995,795</u>

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
Investments:					
U.S. Treasury	\$ 1,348,781	\$ 1,348,781	\$ -	\$ -	\$ -
Money Market	621,803	621,803	-	-	-
Total Investments	<u>\$ 1,970,584</u>	<u>\$ 1,970,584</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial credit risk. Investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County's \$1,970,584 in investments all are in the name of the County.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$6,734,951 of the County's bank balance of \$7,137,951 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The County's deposits and investment policy are in accordance with statutory authority.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 210,510	\$ 3,177	\$ -	\$ 213,687
Construction in Progress	<u>2,314,432</u>	<u>2,238,935</u>	<u>(3,931,095)</u>	<u>622,272</u>
Subtotal	<u>2,524,942</u>	<u>2,242,112</u>	<u>(3,931,095)</u>	<u>835,959</u>
Capital assets being depreciated:				
Buildings	5,688,404	-	-	5,688,404
Machinery and equipment	<u>2,711,776</u>	<u>302,730</u>	<u>(277,809)</u>	<u>2,736,697</u>
Subtotal	<u>8,400,180</u>	<u>302,730</u>	<u>(277,809)</u>	<u>8,425,101</u>
Less accumulated depreciation for:				
Buildings	(3,713,541)	(85,611)	-	(3,799,152)
Machinery and equipment	<u>(1,830,612)</u>	<u>(267,293)</u>	<u>261,907</u>	<u>(1,835,998)</u>
Subtotal	<u>(5,544,153)</u>	<u>(352,904)</u>	<u>261,907</u>	<u>(5,635,150)</u>
Net Capital Assets Being Depreciated	<u>2,856,027</u>	<u>(50,174)</u>	<u>(15,902)</u>	<u>2,789,951</u>
Governmental Activities Capital Assets - Net of Depreciation	<u>\$ 5,380,969</u>	<u>\$ 2,191,938</u>	<u>\$ (3,946,997)</u>	<u>\$ 3,625,910</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 37,550	\$ -	\$ -	\$ 37,550
Subtotal	<u>37,550</u>	<u>-</u>	<u>-</u>	<u>37,550</u>
Capital assets being depreciated:				
Buildings and improvements	456,305	-	-	456,305
Equipment	<u>132,396</u>	<u>7,700</u>	<u>(51,000)</u>	<u>89,096</u>
Subtotal	<u>588,701</u>	<u>7,700</u>	<u>(51,000)</u>	<u>545,401</u>
Less accumulated depreciation for:				
Buildings and improvements	(269,039)	(9,741)	-	(278,780)
Equipment	<u>(127,150)</u>	<u>(3,358)</u>	<u>55,670</u>	<u>(74,838)</u>
Subtotal	<u>(396,189)</u>	<u>(13,099)</u>	<u>55,670</u>	<u>(353,618)</u>
Net Capital Assets Being Depreciated	<u>192,512</u>	<u>(5,399)</u>	<u>4,670</u>	<u>191,783</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 230,062</u>	<u>\$ (5,399)</u>	<u>\$ 4,670</u>	<u>\$ 229,333</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

Judicial	\$ 9,364
General Government	191,160
Public Safety	115,005
Health and Welfare	<u>37,375</u>

Total Governmental Activities \$ 352,904

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land and Improvements	\$ 65,662	\$ -	\$ -	\$ 65,662
Infrastructure Land Improvements	<u>4,275,492</u>	<u>780,003</u>	<u>-</u>	<u>5,055,495</u>
Subtotal	<u>4,341,154</u>	<u>780,003</u>	<u>-</u>	<u>5,121,157</u>
<i>Capital assets being depreciated:</i>				
Buildings	635,119	4,021,555	-	4,656,674
Road Equipment	4,935,836	408,726	93,654	5,250,908
Shop Equipment	85,835	13,117	-	98,952
Office Equipment	30,615	-	-	30,615
Engineer's Equipment	35,016	503	-	35,519
Depletable Assets	196,825	30,000	-	226,825
Infrastructure – Bridges	397,555	67,979	-	465,534
Infrastructure – Roads	<u>2,052,228</u>	<u>370,552</u>	<u>-</u>	<u>2,422,780</u>
Subtotal	<u>8,369,029</u>	<u>4,912,432</u>	<u>93,654</u>	<u>13,187,807</u>
Less accumulated depreciation:				
Building	(352,162)	(11,512)	-	(363,674)
Road Equipment	(3,574,486)	(483,083)	93,654	(3,963,915)
Shop Equipment	(73,512)	(3,719)	-	(77,231)
Office Equipment	(25,463)	(1,011)	-	(26,474)
Engineer's Equipment	(14,646)	(4,283)	-	(18,929)
Depletable Assets	(195,880)	(1,768)	-	(197,648)
Infrastructure – Bridges	(12,061)	(13,246)	-	(25,307)
Infrastructure – Roads	<u>(96,505)</u>	<u>(272,275)</u>	<u>-</u>	<u>(368,780)</u>
Subtotal	<u>(4,344,715)</u>	<u>(790,897)</u>	<u>93,654</u>	<u>(5,041,958)</u>
Net Capital Assets Being Depreciated	<u>4,024,314</u>	<u>4,121,535</u>	<u>-</u>	<u>8,145,849</u>
Total Net Capital Assets	<u>\$ 8,365,468</u>	<u>\$ 4,901,538</u>	<u>\$ -</u>	<u>\$ 13,267,006</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation and depletion expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 477,426
Indirect Equipment	
Shop Building	11,512
Shop Equipment	3,719
Net Administrative Expenses	
Engineering	4,283
Office Equipment	1,011
Office Vehicles	5,657
Depletion Expense	1,768
Infrastructure Depreciation	<u>285,521</u>
Total Depreciation Expense	<u>\$ 790,897</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Osceola, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payables are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS		
	General	Prior Delinquent Tax	Totals
2004 Delinquent Tax	\$ -	\$ 1,150,000	\$ 1,150,000
EMS	34,762	-	34,762
Nonmajor-Gov. Funds	36,819	-	36,819
Nonmajor-Enterprise Funds	-	22,400	22,400
Total	<u>\$ 71,581</u>	<u>\$ 1,172,400</u>	<u>\$ 1,243,981</u>
ADVANCES FROM OTHER FUNDS	ADVANCES TO OTHER FUNDS		
	General Fund		
Commission on Aging	<u>\$ 2,000</u>		

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**Interfund Transfers**

		TRANSFERS (OUT)						
TRANSFERS IN		General Fund	Revenue Sharing Reserve	EMS	Prior Delinquent Tax	Nonmajor Governmental	Nonmajor Enterprise Funds	Total
	General Fund	\$ -	\$ 492,414	\$ 34,290	\$ -	\$ 20,816	\$ -	\$ 547,520
	EMS	-	40,000	-	-	-	-	40,000
	Construction	-	-	-	10,209	-	-	10,209
	Nonmajor-Government	343,043	-	36,187	132,310	-	184,069	695,609
	Nonmajor-Enterprise	10,000	-	-	-	-	-	10,000
	Prior Delinquent Tax	-	-	-	-	184,069	73,296	257,365
	Component Units	41,231	-	-	-	-	-	41,231
	Total	<u>\$ 434,274</u>	<u>\$ 492,414</u>	<u>\$ 70,477</u>	<u>\$ 142,519</u>	<u>\$ 204,885</u>	<u>\$ 257,365</u>	<u>\$ 1,601,934</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds					
\$1,600,000 Building Authority Bonds, Series 1998, due in annual installments increasing from \$50,000 to \$125,000 through November 1, 2017, plus interest at 5.20 % payable semi-annually.	\$ 1,200,000	\$ -	\$ 75,000	\$ 1,125,000	\$ 75,000
 \$3,750,000 Building Authority Bonds, Series 2004, due in annual installments increasing from \$75,000 to \$225,000 through April 1, 2034, plus interest at 3% to 4.875 % payable semi-annually.	 3,750,000	 -	 75,000	 3,675,000	 75,000

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$725,000 Capital Improvement Bonds Series 2005, due in annual installments increasing from \$15,000 to \$40,000 through June 1, 2030, plus interest 3.75% to 4.85% payable semi-annually.	-	725,000	-	725,000	15,000
Total Governmental Activities	<u>\$ 4,950,000</u>	<u>\$ 725,000</u>	<u>\$ 150,000</u>	<u>\$ 5,525,000</u>	<u>\$ 165,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 165,000	\$ 244,453
2007	170,000	238,078
2008	170,000	231,609
2009	170,000	225,140
2010	170,000	218,578
2011-2015	1,035,000	973,981
2016-2020	910,000	741,594
2021-2025	815,000	563,063
2026-2030	1,070,000	340,438
2031-2035	<u>850,000</u>	<u>85,314</u>
Total	<u>\$ 5,525,000</u>	<u>\$ 3,862,248</u>

A summary of vested benefits payable at December 31, 2005 is as follows:

Vacation	\$ 112,417
Sick Leave	<u>57,395</u>
TOTALS	<u>\$ 169,812</u>

The long-term debt of the Road Commission is summarized as follows:

	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Caterpillar Track-Type Tractor, Model D4GXL, \$67,895, Capital Lease Dated July 1, 2003	\$ 51,881	\$ (7,129)	\$ 44,752	\$ 7,390
Caterpillar Excavator Model 312CL \$92,095 Capital Lease Dated July 15, 2003	79,559	(10,449)	69,110	10,822

NOTE 6 - LONG-TERM DEBT (Continued)

	Balance 01/01/05	Additions (Reductions)	Balance 12/31/05	Due Within One Year
Two 2003 International Trucks, \$212,000 Promissory Note Dated May 16, 2003, maturing serially through 2008 with quarterly installments of \$11,558 and an interest rate of 3.3%	151,921	(41,730)	110,191	43,124
Two 2004 International Trucks, \$180,000 Promissory Note Dated May 15, 2005 maturing serially through 2010 with quarterly installments of \$9,998 and an interest rate of 3.99%	-	180,000 (16,509)	163,491	33,930
Two Road Commission Facilities \$3,750,000 Capital Lease Dated April 1, 2004 maturing serially through 2034 with biannual payments ranging from \$75,000 to \$225,000 and at an interest rate ranging from 3.0% to 4.875%	-	3,750,000 (75,000)	3,675,000	75,000
Vested Employee Benefits Vacation and Sick Leave	304,891	25,233	330,124	-
Total	<u>\$ 588,252</u>	<u>\$ 3,804,416</u>	<u>\$ 4,392,668</u>	<u>\$ 170,266</u>

A Caterpillar Track-Type Tractor Model D4GXL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$67,895, with 5 annual payments of \$9,181 and a \$30,888 balloon payment due in July 2008 at an implied interest rate of 3.99%.

Loan Amount	Interest Rate	Maturity Year	Outstanding 12/31/2005	Payable if Held to Maturity
\$ 67,895	3.99%	2006	\$ 7,390	\$ 1,791
		2007	7,685	1,495
		2008	<u>29,677</u>	<u>1,188</u>
		Total	<u>\$ 44,752</u>	<u>\$ 4,474</u>

NOTE 6 - LONG-TERM DEBT (Continued)

A Caterpillar Excavator Model 312CL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase was \$92,095, with 20 quarterly payments of \$3,291 and a \$41,691 balloon payment due in July 2008 at an implied interest rate of 3.59%

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/2005</u>	<u>Payable if Held to Maturity</u>
\$ 92,095	3.59%	2006	\$ 10,822	\$ 2,343
		2007	11,217	1,948
		2008	<u>47,071</u>	<u>1,193</u>
		Total	<u>\$ 69,110</u>	<u>\$ 5,484</u>

Two 2003 International Trucks were purchased in May 2003 under a promissory note through Huntington Bank. The original purchase price was \$21,000, with 20 quarterly payments of \$11,558 at an interest rate of 3.3%.

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/2005</u>	<u>Held to Maturity</u>
\$ 212,000	3.3%	2006	\$ 43,124	\$ 3,106
		2007	44,565	1,665
		2008	<u>22,502</u>	<u>277</u>
		Total	<u>\$ 110,191</u>	<u>\$ 5,048</u>

Two International Tractors Model 5900I was purchased in May 2005 under a lease purchase agreement through Huntington National Bank. The original purchase price was \$180,000, with 20 quarterly payments of \$9,988 at an implied interest rate of 3.99%.

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/2005</u>	<u>Held to Maturity</u>
\$ 180,000	3.99%	2006	\$ 33,930	\$ 6,022
		2007	35,304	4,647
		2008	36,734	3,217
		2009	38,221	1,729
		2010	<u>19,302</u>	<u>288</u>
		Total	<u>\$ 163,491</u>	<u>\$ 15,903</u>

NOTE 6 - LONG-TERM DEBT (Continued)

On September 1, 2004, the Osceola County Building Authority issued Building Authority Bonds, Series 2004, in the amount of \$3,750,000 for the purpose of constructing, furnishing, and equipping two new facilities for the Osceola County Road Commission. The Road Commission has entered into a 30 year capital lease agreement as lessee for the financing of these two new facilities with Osceola County who leased the facilities from the Building Authority, after which time the possession of the leased premises shall vest in the Road Commission after the bonds are retired. The Road Commission is to operate and maintain the leased premises and keep it in good condition and repair.

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/2005</u>	<u>Held to Maturity</u>
\$ 180,000	3.99%	2006	\$ 75,000	\$ 159,931
		2007	75,000	157,681
		2008	75,000	155,431
		2009	75,000	153,181
		2010	75,000	150,837
		2011-2015	425,000	711,905
		2016-2020	525,000	618,822
		2021-2025	650,000	491,333
		2026-2030	850,000	312,782
		2031-2034	<u>850,000</u>	<u>85,313</u>
		Total	<u>\$ 3,675,000</u>	<u>\$ 2,997,306</u>

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of services of an employee and is made available to the employee at the beginning of each year, not to exceed a total accumulation of 44 days for union employees, 59 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of 1 day for each month of services, not to exceed a total accumulation of 125 days for all employees. Sick pay is payable at the following percentage when employees leave prior to retirement.

10 years of service	60 percent
5-10 years of service	40 percent
0-5 years of service	20 percent

Sick leave is payable at 100% at retirement or death.

At December 31, 2005, the total vested vacation and sick leave benefits were \$72,365 and \$257,759, respectively.

NOTE 7 - RISK MANAGEMENT

Risk Management – The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The County joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The government is unable to provide an estimate of the amounts of additional assessments.

NOTE 8 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2005.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSDescription of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.0 percent times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2004.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

Annual Pension Cost

During the year ended December 31, 2005, the County's contributions totaling \$368,127 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, follows:

	2002	2003	2004
Actuarial Value of Assets	\$ 6,254,156	\$ 6,835,402	\$ 7,428,543
Actuarial Accrued Liability	7,391,412	8,056,141	8,510,149
Unfunded AAL	1,137,256	1,220,739	1,081,606
Funded Ratio	85%	85%	87%
Covered Payroll	3,328,023	3,387,364	3,547,048
UAAL as a Percentage of Covered Payroll	34%	36%	30%

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSThree year trend information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	287,185	100%	0%
2004	357,423	100%	0%
2005	368,127	100%	0%

ROAD COMMISSIONDescription of Plan and Plan Assets

The Osceola County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, and service retirement allowance, disability retirement allowance, nonduty-connected to death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for general and administration is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final compensation (FAC), with a maximum benefit of 80% FAC for the general and administrative employees. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Public Act No. 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units. The employee contribution for the year ending December 31, 2004 was 1.5% of gross wages for general employees and 1.5% of gross wages for administrative employees. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 9.23% and 12.44% of annual compensation at December 31, 2002 for the general and administrative groups, respectively, of annual compensation.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost was \$108,321 based on the actuarially determined rate for 2002. The employees contributed \$16,341 in accordance with the union and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	90,394	100%	0%
2004	104,017	100%	0%
2005	108,321	100%	0%

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
2002	\$ 4,553,898	\$ 5,274,518	\$ 720,620	86%	\$ 1,142,640	63%
2003	4,767,569	5,379,367	611,798	89%	1,136,216	54%
2004	4,962,306	5,761,285	798,979	86%	1,065,505	75%

NOTE 10 - POST EMPLOYMENT BENEFITS

Osceola County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy to all employees who retire from the Road Commission. The employer will pay all costs for Blue Cross/Blue Shield, including spouse, from the time the retiree is 62 years old until 65 years of age. After age 65, retirees must reimburse the employer for the cost of insurance. Employees that retire before age 62 may remain in the health group if they reimburse the employer for the cost of insurance.

NOTE 10 - POST EMPLOYMENT BENEFITS (Continued)

Currently, five retirees meet those eligibility requirements. Expenditures for post-employment health care benefits recognized when insurance premiums are paid. Premiums paid by the Road Commission in 2005 totaled \$34,130, while reimbursements from retirees totaled \$13,880. The net cost to the Road Commission was \$20,250. The reason for the negative cost is retirees are allowed to pay early and the reimbursements are recognized when received while the expenditures are recognized as the insurance premiums become due.

NOTE 11- LEASES

Capital Leases – The County leases an ambulance under capital lease with yearly lease payment of \$30,721, including an interest rate of 2.95%. The lease qualifies as capital lease for accounting purposes and therefore has been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present values are as follows:

2006	\$	30,721
2007		<u>7,263</u>
Total minimum lease payments		37,984
Less amount representing interest		<u>(1,306)</u>
Present value of minimum lease payment	\$	<u>36,678</u>

NOTE 14 - NET ASSETS RESTRICTED/FUND EQUITY RESERVES

Net assets restrictions/fund equity reserve can be described as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Friend of the Court	Fund Purposes	\$ 36,233
Public Improvement	Public Improvement	120,398
Housing Grant	Public Housing	28,489
Revenue Sharing Reserve	Revenue Sharing	<u>1,675,885</u>
		<u>\$ 1,861,005</u>

NOTE 15 - DESIGNATED FUND BALANCE

The various governing boards of the County have the power to designate or set aside, all or a portion of unreserved fund balance for specific purposes. The following is a summary of designated fund balance of December 31, 2005:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Advances	\$ 2,000

Required Supplemental Information

County of Osceola, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,468,253	\$ 3,481,318	\$ 4,177,135	\$ 695,817
Licenses & Permits	44,000	44,000	49,599	5,599
Federal Sources	429,385	385,770	331,669	(54,101)
State Sources	329,086	340,030	354,567	14,537
Local Sources	26,000	26,000	23,465	(2,535)
Charges for Services	833,420	893,009	869,153	(23,856)
Refunds & Reimbursements	345,469	333,242	399,925	66,683
Interest & Rentals	115,000	120,237	137,692	17,455
Other Revenue	91,694	164,265	148,465	(15,800)
TOTAL REVENUES	5,682,307	5,787,871	6,491,670	703,799
EXPENDITURES:				
Legislative:				
Board of Commissioners	75,300	76,200	67,768	8,432
Judicial:				
Circuit Court	144,420	145,869	127,893	17,976
District Court	228,983	227,856	212,338	15,518
Jury Commission	3,792	3,792	2,164	1,628
Juvenile Division	250,401	250,824	191,991	58,833
Adult Probation	2,200	2,200	2,101	99
Probate Court	82,268	84,768	84,083	685
Public Defender	148,756	184,284	180,886	3,398
Total Judicial	860,820	899,593	801,456	98,137
General Government:				
County Coordinator	77,491	77,491	77,453	38
Professional	42,500	57,500	50,944	6,556
Elections	5,900	26,622	25,539	1,083
County Clerk	215,376	215,376	213,949	1,427
Equalization	160,206	166,106	162,615	3,491
Prosecuting Attorney	275,497	267,382	247,080	20,302
Crime Victims	47,758	47,758	45,760	1,998
Register of Deeds	188,065	197,710	196,210	1,500
Treasurer	171,635	206,635	203,622	3,013
Cooperative Extension	148,461	151,506	146,098	5,408
Buildings & Grounds	149,619	139,901	132,150	7,751
Human Services Building	56,539	56,539	54,587	1,952
Drain Commission	14,216	14,646	13,941	705
Sedimentation	13,086	13,286	13,264	22
General	345,629	322,049	299,953	22,096
Total General Government	1,911,978	1,960,507	1,883,165	77,342

County of Osceola, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	1,053,181	1,212,066	1,209,915	2,151
Marine	14,932	14,932	12,710	2,222
Snowmobile	9,880	9,880	4,501	5,379
Road Patrol	62,732	62,732	55,612	7,120
Jail	1,042,221	1,051,845	1,047,190	4,655
Building Inspector/Other	1,112	1,112	741	371
Planning Department	4,835	4,835	820	4,015
Plat Board	75	75	-	75
Emergency Services	245,900	202,285	189,881	12,404
Animal Control	82,456	84,737	83,095	1,642
911	70,000	96,212	96,212	-
Total Public Safety	2,587,324	2,740,711	2,700,677	40,034
Public Works:				
Solid Waste	4,099	4,099	56	4,043
Health & Welfare:				
Medical Examiner	49,680	50,380	48,079	2,301
Contagious Diseases	750	750	333	417
Veteran's Burial	13,600	13,725	8,710	5,015
Total Health & Welfare	64,030	64,855	57,122	7,733
Other Expenditures:				
Insurance & Bonds	547,040	580,658	540,884	39,774
Employee Benefits	29,300	29,864	31,624	(1,760)
Appropriations	302,482	332,157	329,042	3,115
Total Other Expenditures	878,822	942,679	901,550	41,129
TOTAL EXPENDITURES	6,382,373	6,688,644	6,411,794	276,850
EXCESS OF REVENUES OVER EXPENDITURES	(700,066)	(900,773)	79,876	980,649
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	1,061,414	1,095,738	547,520	(548,218)
Operating Transfers Out	(581,248)	(444,965)	(434,274)	10,691
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (219,900)	\$ (250,000)	193,122	\$ 443,122
FUND BALANCE, JANUARY 1			1,162,389	
FUND BALANCE, DECEMBER 31			\$ 1,355,511	

County of Osceola, Michigan

Required Supplemental Information Budgetary Comparison Schedule Revenue Sharing Reserve Fund Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 1,157,795	\$ 1,157,795
Interest & Rentals	-	-	17,410	17,410
TOTAL REVENUES	-	-	1,175,205	1,175,205
OTHER FINANCING SOURCES (USES):				
Operating Transfer Out	-	-	(492,414)	(492,414)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	682,791	\$ 682,791
FUND BALANCE, JANUARY 1			993,094	
FUND BALANCE, DECEMBER 31			\$ 1,675,885	

County of Osceola, Michigan

Required Supplemental Information Budgetary Comparison Schedule EMS Fund Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 542,522	\$ 542,522	\$ 539,425	\$ (3,097)
State Sources	-	1,800	6,300	4,500
Charges for Services	623,894	685,103	655,434	(29,669)
Refunds & Reimbursements	3,300	3,300	-	(3,300)
Interest & Rentals	-	-	10,203	10,203
Other Revenue	1,056	7,243	8,490	1,247
TOTAL REVENUES	1,170,772	1,239,968	1,219,852	(20,116)
EXPENDITURES:				
Health & Welfare	1,129,371	1,197,622	1,165,579	32,043
Capital Outlay	19,746	49,576	49,356	220
TOTAL EXPENDITURES	1,149,117	1,247,198	1,214,935	32,263
EXCESS OF REVENUES OVER EXPENDITURES	21,655	(7,230)	4,917	12,147
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	40,000	40,000	-
Operating Transfers Out	(21,655)	(70,477)	(70,477)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ (37,707)	(25,560)	\$ 12,147
FUND BALANCE, JANUARY 1			161,073	
FUND BALANCE, DECEMBER 31			\$ 135,513	

Other Supplemental Information

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds							
	Michigan Justice Training	Friend of Court	Community Corrections	Survey Remonumentation	Public Improvement	Building Inspection	Register of Deeds Automation	Budget Stabilization
ASSETS:								
Cash & Equivalents - Unrestricted	\$ 10,651	\$ 175,262	\$ 9,786	\$ -	\$ 167,792	\$ 114,143	\$ 69,780	\$ 50,000
Receivables:								
Accounts	-	-	-	-	-	3,075	-	-
Taxes	-	-	-	-	-	-	-	-
Due from Governmental Units	-	57,018	3,264	36,928	-	-	-	-
TOTAL ASSETS	<u>\$ 10,651</u>	<u>\$ 232,280</u>	<u>\$ 13,050</u>	<u>\$ 36,928</u>	<u>\$ 167,792</u>	<u>\$ 117,218</u>	<u>\$ 69,780</u>	<u>\$ 50,000</u>
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ 36,819	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	674	1,016	109	47,394	552	28,632	-
Accrued Liabilities	-	5,321	1,227	-	-	3,544	-	-
Advances to Other Funds	-	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>5,995</u>	<u>2,243</u>	<u>36,928</u>	<u>47,394</u>	<u>4,096</u>	<u>28,632</u>	<u>-</u>
FUND BALANCES:								
Reserved	-	36,233	-	-	120,398	-	-	-
Unreserved	10,651	190,052	10,807	-	-	113,122	41,148	50,000
TOTAL FUND BALANCES	<u>10,651</u>	<u>226,285</u>	<u>10,807</u>	<u>-</u>	<u>120,398</u>	<u>113,122</u>	<u>41,148</u>	<u>50,000</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,651</u>	<u>\$ 232,280</u>	<u>\$ 13,050</u>	<u>\$ 36,928</u>	<u>\$ 167,792</u>	<u>\$ 117,218</u>	<u>\$ 69,780</u>	<u>\$ 50,000</u>

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds							
	Disaster Contingency	Officer Training	Drug Enforcement	Drug Enforcement	Dare Operations	Law Library	Commission On Aging	Commission On Aging
ASSETS:								
Cash & Equivalents - Unrestricted	\$ 1,923	\$ 15,231	\$ 11,798	\$ 47,744	\$ 12,047	\$ 1,768	\$ 135,409	\$ 141,871
Receivables:								
Accounts	-	480	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	445,828
Due from Governmental Units	-	-	-	356	-	-	-	-
TOTAL ASSETS	<u>\$ 1,923</u>	<u>\$ 15,711</u>	<u>\$ 11,798</u>	<u>\$ 48,100</u>	<u>\$ 12,047</u>	<u>\$ 1,768</u>	<u>\$ 135,409</u>	<u>\$ 587,699</u>
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-	-	551	704	2,675
Accrued Liabilities	-	-	-	-	-	-	4,860	10,188
Advances to Other Funds	-	-	-	-	-	-	2,000	-
Deferred Revenue	-	-	-	-	-	-	-	445,828
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>551</u>	<u>7,564</u>	<u>458,691</u>
FUND BALANCES:								
Reserved	-	-	-	-	-	-	-	-
Unreserved	1,923	15,711	11,798	48,100	12,047	1,217	127,845	129,008
TOTAL FUND BALANCES	<u>1,923</u>	<u>15,711</u>	<u>11,798</u>	<u>48,100</u>	<u>12,047</u>	<u>1,217</u>	<u>127,845</u>	<u>129,008</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,923</u>	<u>\$ 15,711</u>	<u>\$ 11,798</u>	<u>\$ 48,100</u>	<u>\$ 12,047</u>	<u>\$ 1,768</u>	<u>\$ 135,409</u>	<u>\$ 587,699</u>

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds							Debt Service Fund
	Meals on Wheels	Dept. of Human Services	Child Care	Veteran's Trust	Equipment & Maintenance	Housing Grant	Senior Meals Program	Co Cap Improvement Debt Service
ASSETS:								
Cash & Equivalents - Unrestricted	\$ 11,428	\$ 22,766	\$ 28,501	\$ 679	\$ 72,509	\$ 28,489	\$ 1,830	\$ -
Receivables:								
Accounts	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	1,086	-	1,197	-	-	-
TOTAL ASSETS	<u>\$ 11,428</u>	<u>\$ 22,766</u>	<u>\$ 29,587</u>	<u>\$ 679</u>	<u>\$ 73,706</u>	<u>\$ 28,489</u>	<u>\$ 1,830</u>	<u>\$ -</u>
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	2,064	35	-	2,966	-	-	-
Accrued Liabilities	2,445	4,474	1,053	-	-	-	-	-
Advances to Other Funds	-	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>2,445</u>	<u>6,538</u>	<u>1,088</u>	<u>-</u>	<u>2,966</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:								
Reserved	-	-	-	-	-	28,489	-	-
Unreserved	8,983	16,228	28,499	679	70,740	-	1,830	-
TOTAL FUND BALANCES	<u>8,983</u>	<u>16,228</u>	<u>28,499</u>	<u>679</u>	<u>70,740</u>	<u>28,489</u>	<u>1,830</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,428</u>	<u>\$ 22,766</u>	<u>\$ 29,587</u>	<u>\$ 679</u>	<u>\$ 73,706</u>	<u>\$ 28,489</u>	<u>\$ 1,830</u>	<u>\$ -</u>

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Debt Service Fund	Capital Project Fund	Permanent Fund		
	Building Authority Prin./Int.	Co Cap Improve Bond Proceeds	District Court	Cemetery Trust	Totals
ASSETS:					
Cash & Equivalents - Unrestricted	\$ -	\$ 79,934	\$ 32,920	\$ -	\$ 1,244,261
Receivables:					
Accounts	-	-	-	-	3,555
Taxes	-	-	-	-	445,828
Due from Governmental Units	-	-	338	-	100,187
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 79,934</u>	<u>\$ 33,258</u>	<u>\$ -</u>	<u>\$ 1,793,831</u>
LIABILITIES:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 36,819
Accounts Payable	-	-	-	-	87,372
Accrued Liabilities	-	-	-	-	33,112
Advances to Other Funds	-	-	-	-	2,000
Deferred Revenue	-	-	-	-	445,828
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>605,131</u>
FUND BALANCES:					
Reserved	-	-	-	-	185,120
Unreserved	-	79,934	33,258	-	1,003,580
TOTAL FUND BALANCES	<u>-</u>	<u>79,934</u>	<u>33,258</u>	<u>-</u>	<u>1,188,700</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 79,934</u>	<u>\$ 33,258</u>	<u>\$ -</u>	<u>\$ 1,793,831</u>

County of Osceola, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds							
	Michigan Justice Training	Friend of Court	Community Corrections	Survey Remonumentation	Public Improvement	Building Inspection	Register of Deeds Automation	Budget Stabilization
REVENUES:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	232,605	-	-	-	-	-	-
State Sources	4,495	-	54,043	76,054	-	-	-	-
Local Sources	-	-	-	-	-	-	-	-
Charges for Services	-	44,837	-	-	-	190,075	-	-
Refunds & Reimbursements	-	-	5,374	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	4,449	1,953	-
Other Revenue	-	-	-	-	-	-	-	-
TOTAL REVENUES	4,495	277,442	59,417	76,054	-	194,524	1,953	-
EXPENDITURES:								
Judicial	-	317,924	-	-	-	-	-	-
General Government	-	-	-	-	-	-	36,726	-
Public Safety	4,063	-	76,225	-	-	195,804	-	-
Health & Welfare	-	-	-	85,492	-	-	-	-
Capital Outlay	-	-	-	-	318,722	-	-	-
Debt Service	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	4,063	317,924	76,225	85,492	318,722	195,804	36,726	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	432	(40,482)	(16,808)	(9,438)	(318,722)	(1,280)	(34,773)	-
OTHER FINANCING SOURCES (USES):								
Bond Proceeds	-	-	-	-	-	-	-	-
Operating Transfers In	-	102,866	22,264	8,000	333,800	-	37,110	-
Operating Transfers Out	-	-	-	-	(150,553)	(34)	(15,000)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	432	62,384	5,456	(1,438)	(135,475)	(1,314)	(12,663)	-
FUND BALANCES, January 1	10,219	163,901	5,351	1,438	255,873	114,436	53,811	50,000
FUND BALANCES, December 31	\$ 10,651	\$ 226,285	\$ 10,807	\$ -	\$ 120,398	\$ 113,122	\$ 41,148	\$ 50,000

County of Osceola, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds							
	Disaster Contingency	Officer Training	Drug Enforcement	Drug Enforcement	Dare Operations	Law Library	Commission On Aging	Commission On Aging
REVENUES:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,500	\$ -	\$ 431,501
Federal Sources	-	-	-	-	-	-	90,334	-
State Sources	-	9,668	-	-	1,265	-	112,213	18,101
Local Sources	-	-	-	-	3,400	-	-	-
Charges for Services	-	-	-	-	-	-	-	-
Refunds & Reimbursements	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	-	-	11,176
Other Revenue	-	-	613	16,751	-	-	485	6,163
TOTAL REVENUES	-	9,668	613	16,751	4,665	3,500	203,032	466,941
EXPENDITURES:								
Judicial	-	-	-	-	-	13,982	-	-
General Government	-	-	-	-	-	-	-	-
Public Safety	-	2,385	-	5,751	6,506	-	-	-
Health & Welfare	-	-	-	-	-	-	172,126	425,077
Capital Outlay	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	2,385	-	5,751	6,506	13,982	172,126	425,077
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	7,283	613	11,000	(1,841)	(10,482)	30,906	41,864
OTHER FINANCING SOURCES (USES):								
Bond Proceeds	-	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	6,517	-	10,500	-	-
Operating Transfers Out	-	-	(6,517)	-	-	-	-	(12,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	7,283	(5,904)	17,517	(1,841)	18	30,906	29,864
FUND BALANCES, January 1	1,923	8,428	17,702	30,583	13,888	1,199	96,939	99,144
FUND BALANCES, December 31	\$ 1,923	\$ 15,711	\$ 11,798	\$ 48,100	\$ 12,047	\$ 1,217	\$ 127,845	\$ 129,008

County of Osceola, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds							Debt Service Fund
	Meals on Wheels	Dept. of Human Services	Child Care	Veteran's Trust	Equipment & Maintenance	Housing Grant	Senior Meals Program	Co Cap Improvement Debt Service
REVENUES:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	134,715	-	-	-	-	41,662	-	-
State Sources	38,000	7,796	105,722	1,455	17,197	-	48,113	-
Local Sources	10,414	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	-	-
Refunds & Reimbursements	-	-	41,854	-	-	-	-	-
Interest & Rentals	4	-	-	-	-	-	10	-
Other Revenue	49,066	-	-	-	500	31,039	-	-
TOTAL REVENUES	232,199	7,796	147,576	1,455	17,697	72,701	48,123	-
EXPENDITURES:								
Judicial	-	-	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-
Health & Welfare	247,367	15,896	451,780	1,464	-	47,355	46,293	-
Capital Outlay	-	-	-	-	35,823	-	-	-
Debt Service	-	-	-	-	-	-	-	18,296
Other	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	247,367	15,896	451,780	1,464	35,823	47,355	46,293	18,296
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,168)	(8,100)	(304,204)	(9)	(18,126)	25,346	1,830	(18,296)
OTHER FINANCING SOURCES (USES):								
Bond Proceeds	-	-	-	-	-	-	-	-
Operating Transfers In	12,000	12,000	-	-	-	-	-	18,296
Operating Transfers Out	-	(5,476)	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(3,168)	(1,576)	(304,204)	(9)	(18,126)	25,346	1,830	-
FUND BALANCES, January 1	12,151	17,804	332,703	688	88,866	3,143	-	-
FUND BALANCES, December 31	\$ 8,983	\$ 16,228	\$ 28,499	\$ 679	\$ 70,740	\$ 28,489	\$ 1,830	\$ -

County of Osceola, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2005

	Debt Service Fund	Capital Project Fund	Permanent Fund		
	Building Authority Prin./Int.	Co Cap Improve Bond Proceeds	District Court	Cemetery Trust	Totals
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 435,001
Federal Sources	-	-	-	-	499,316
State Sources	-	-	-	-	494,122
Local Sources	-	-	-	-	13,814
Charges for Services	-	-	-	-	234,912
Refunds & Reimbursements	-	-	-	-	47,228
Interest & Rentals	-	7,759	-	4	25,355
Other Revenue	-	-	16,931	-	121,548
TOTAL REVENUES	-	7,759	16,931	4	1,871,296
EXPENDITURES:					
Judicial	-	-	-	-	331,906
General Government	-	-	-	-	36,726
Public Safety	-	-	-	-	290,734
Health & Welfare	-	-	-	-	1,492,850
Capital Outlay	-	622,272	-	-	976,817
Debt Service	132,256	-	-	-	150,552
Other	-	18,667	-	-	18,667
TOTAL EXPENDITURES	132,256	640,939	-	-	3,298,252
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(132,256)	(633,180)	16,931	4	(1,426,956)
OTHER FINANCING SOURCES (USES):					
Bond Proceeds	-	713,114	-	-	713,114
Operating Transfers In	132,256	-	-	-	695,609
Operating Transfers Out	-	-	(15,000)	(305)	(204,885)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	79,934	1,931	(301)	(223,118)
FUND BALANCES, January 1	-	-	31,327	301	1,411,818
FUND BALANCES, December 31	\$ -	\$ 79,934	\$ 33,258	\$ -	\$ 1,188,700

County of Osceola, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2005

	Park & Recreation	Commissary	Vested Benefits	Tax Revolving Admin	2002 Delinquent Tax	2003 Delinquent Tax	Totals
ASSETS:							
Cash & Equivalents -Unrestricted	\$ 104,546	\$ 9,326	\$ 114,870	\$ 1,214	\$ -	\$ 142,207	\$ 372,163
Receivables:							
Taxes	-	-	-	-	-	69,979	69,979
Interest	-	-	-	-	-	23,093	23,093
Due From Others	-	-	-	-	-	12,998	12,998
Capital Assets - net	229,333	-	-	-	-	-	229,333
TOTAL ASSETS	<u>\$ 333,879</u>	<u>\$ 9,326</u>	<u>\$ 114,870</u>	<u>\$ 1,214</u>	<u>\$ -</u>	<u>\$ 248,277</u>	<u>\$ 707,566</u>
LIABILITIES:							
Current Liabilities:							
Due to Other Funds	\$ 22,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,400
Accrued Liabilities	1,334	-	-	-	-	-	1,334
TOTAL LIABILITIES	<u>23,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,734</u>
NET ASSETS:							
Invested in Capital Assets (net of related debt)	229,333	-	-	-	-	-	229,333
Unrestricted	80,812	9,326	114,870	1,214	-	248,277	454,499
TOTAL NET ASSETS	<u>310,145</u>	<u>9,326</u>	<u>114,870</u>	<u>1,214</u>	<u>-</u>	<u>248,277</u>	<u>683,832</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 333,879</u>	<u>\$ 9,326</u>	<u>\$ 114,870</u>	<u>\$ 1,214</u>	<u>\$ -</u>	<u>\$ 248,277</u>	<u>\$ 707,566</u>

County of Osceola, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds Year Ended December 31, 2005

	Park & Recreation	Commissary	Vested Benefits	Tax Revolving Admin	2002 Delinquent Tax	2003 Delinquent Tax	Totals
OPERATING REVENUES:							
Charges for Services	\$ 201,095	\$ 48,043	\$ -	\$ -	\$ -	\$ 32,162	\$ 281,300
Interest & Rentals	-	-	-	-	-	37,674	37,674
Other Revenue	-	-	-	-	2	-	2
TOTAL OPERATING REVENUES	201,095	48,043	-	-	2	69,836	318,976
OPERATING EXPENSES:							
General & Administrative	160,635	42,645	-	-	-	-	203,280
Other Expenses	-	-	-	-	4	-	4
Total Operating Expenses	160,635	42,645	-	-	4	-	203,284
OPERATING INCOME (LOSS)	40,460	5,398	-	-	(2)	69,836	115,692
NON-OPERATING REVENUES (EXPENSES):							
Interest Earnings	2,366	-	-	-	-	10,646	13,012
Total Non-Operating Revenues (Expenses)	2,366	-	-	-	-	10,646	13,012
Income (loss) before transfers	42,826	5,398	-	-	(2)	80,482	128,704
Operating Transfers In	-	-	10,000	-	-	-	10,000
Operating Transfers Out	-	-	-	-	(257,365)	-	(257,365)
CHANGES IN NET ASSETS	42,826	5,398	10,000	-	(257,367)	80,482	(118,661)
NET ASSETS, January 1	267,319	3,928	104,870	1,214	257,367	167,795	802,493
NET ASSETS, December 31	\$ 310,145	\$ 9,326	\$ 114,870	\$ 1,214	\$ -	\$ 248,277	\$ 683,832

County of Osceola, Michigan

Combining Statement of Cash Flows Nonmajor Enterprise Funds Year Ended December 31, 2005

	Parks & Recreation	Commissary	Vested Benefits	Tax Revolving Admin	2002 Delinquent Tax	2003 Delinquent Tax	Totals
Cash Flows From Operating Activities:							
Cash Received From Customers or Users	\$ 201,095	\$ 48,043	\$ -	\$ -	\$ 89,425	\$ 581,237	\$ 919,800
Cash Payments to Suppliers/Others	(151,707)	(42,645)	-	-	(200,004)	-	(394,356)
Internal Activity - Receipts (Payments) to Other Funds	(5,603)	-	-	-	-	(1,600,000)	(1,605,603)
Net Cash Provided (Used) by Operating Activities	<u>43,785</u>	<u>5,398</u>	<u>-</u>	<u>-</u>	<u>(110,579)</u>	<u>(1,018,763)</u>	<u>(1,080,159)</u>
Cash Flows from Non-Capital and Related Financing Activities:							
Net Operating Transfers In (Out)	-	-	10,000	-	(257,365)	-	(247,365)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>(257,365)</u>	<u>-</u>	<u>(247,365)</u>
Cash Flows from Capital and Related Financing Activities:							
Net Sale or (Purchase) of Capital Assets	(7,700)	-	-	-	-	-	(7,700)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,700)</u>
Cash Flows from Investing Activities:							
Interest Income	2,366	-	-	-	-	10,646	13,012
Net Cash Provided (Used) by Investing Activities	<u>2,366</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,646</u>	<u>13,012</u>
Net Increase (Decrease) in Cash	38,451	5,398	10,000	-	(367,944)	(1,008,117)	(1,322,212)
Cash and Equivalents at Beginning of Year	66,095	3,928	104,870	1,214	367,942	1,150,323	1,694,372
Cash and Equivalents at End of Year	<u>\$ 104,546</u>	<u>\$ 9,326</u>	<u>\$ 114,870</u>	<u>\$ 1,214</u>	<u>\$ (2)</u>	<u>\$ 142,206</u>	<u>\$ 372,160</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating Income (Loss)	\$ 40,460	\$ 5,398	\$ -	\$ -	\$ (2)	\$ 69,836	\$ 115,692
Non-cash and other nonoperating expenses:							
Depreciation Expense	13,099	-	-	-	-	-	13,099
Loss on Disposal	(4,670)	-	-	-	-	-	(4,670)
Changes in Assets and Liabilities:							
Decrease (Increase) in Assets:							
Taxes Receivable	-	-	-	-	65,877	487,572	553,449
Interest Receivable	-	-	-	-	21,740	32,661	54,401
Due from Others	-	-	-	-	1,806	(8,832)	(7,026)
Increase (Decrease) in Liabilities:							
Due to Other Funds	(5,603)	-	-	-	(200,000)	(1,600,000)	(1,805,603)
Accrued Liabilities	499	-	-	-	-	-	499
Net Cash Provided (Used) by Operating Activities	<u>\$ 43,785</u>	<u>\$ 5,398</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (110,579)</u>	<u>\$ (1,018,763)</u>	<u>\$ (1,080,159)</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Chairman and Members of
The Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan, except for the Osceola County Road Commission, which was audited by other auditors, as of and for the year ended December 31, 2005, which collectively comprise the County of Osceola Michigan's basic financial statements and have issued our report thereon, dated May 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Osceola County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain matters that we reported to management of Osceola County in a separate letter dated May 25, 2006.

Honorable Chairman and Members
of the Board of Commissioners
County of Osceola, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Osceola, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 05-1.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

May 25, 2006



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

Compliance

We have audited the compliance of the County of Osceola, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Osceola, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Honorable Chairman and Members
of the Board of Commissioners
County of Osceola, Michigan

Internal Control Over Compliance

The management of the County of Osceola, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Osceola, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 25, 2006

County of Osceola, Michigan

Schedule of Expenditures of Federal Awards Year Ended December 31, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass-through from the Michigan State Housing Development Authority (MSHDA):			
Community Development Block Grant - 2003	14.228	MCS-2003-0541-HOA	\$ 41,662
Total U.S. Department of Housing and Urban Development			41,662
U.S. Department of Homeland Security:			
Passed through the Michigan Department of State Police:			
Hazardous Materials Emergency Preparedness 2004-2005	83.548	133-99133-00	60,000
2003 State Homeland Security Program Solution Area Planner	97.004	-	13,474
2003 State Homeland Security Program Training Grant	97.004	-	6,782
2003 State Homeland Security Program Exercise Grant	97.004	-	1,680
Emergency Management Grant 10/01/04 to 9/30/05	97.042	-	17,567
2004 Supplemental Planning Grant	97.051	-	197
Total U.S. Department of Homeland Security			99,700
U.S. Department of Health and Human Services:			
Passed through on Area Agency on Aging of Western Michigan:			
Assisted Transportation, Title IIIB - 10/1/04 to 9/30/05	93.044	51.72	12,546
Assisted Transportation, Title IIIB - 10/1/05 to 9/30/06	93.044	51.72	1,620
Homemaker Aide, Title IIID - 10/1/04 to 9/30/05	93.044	51.72	7,000
Outreach Assistance, Title IIIB - 10/1/04 to 9/30/05	93.044	51.72	10,706
Outreach Assistance, Title IIIB - 10/1/05 to 9/30/06	93.044	51.72	1,932
Congregate Meals - Title IIIC-1, 10/1/04 to 9/30/05	93.045	61.72	29,714
Congregate Meals - Title IIIC-1, 10/1/05 to 9/30/06	93.045	61.72	5,357
Home Delivered Meals - Title IIIC-2, 10/1/04 to 9/30/05	93.045	61.72	54,408
Home Delivered Meals - Title IIIC-2, 10/1/05 to 9/30/06	93.045	61.72	12,288
Congregate Meals - NISP-T3C1, 10/1/04 to 9/30/05	93.053	-	20,878
Congregate Meals - NISP-T3C1, 10/1/05 to 9/30/06	93.053	-	4,144
Federal Respite 10/1/04 to 9/30/05	93.052	51.72	9,358
Federal Respite 10/1/05 to 9/30/06	93.052	51.72	1,983
Medicaid Waver	93.778	-	52,056
Total pass through AAAWM			223,990
Passed through from Michigan Department of Human Services:			
Friend of Court - Incentive	93.560	-	41,216
Friend of Court - Medical Support	93.563	-	1,784
Friend of Court - Child Support 10/1/04 to 9/30/05	93.563	CS/FOC-05-67001	129,585
Friend of Court - Child Support 10/1/05 to 9/30/06	93.563	CS/FOC-06-67001	60,021
Prosecuting Attorney - Child Support 10/1/04 to 9/30/05	93.563	CSPA-2005-67002	31,743
Prosecuting Attorney - Child Support 10/1/05 to 9/30/06	93.563	CSPA-2006-67002	15,831
Total Michigan Department of Human Services			280,180
Total U.S. Department of Health and Human Services			504,170
U.S. Department of Transportation:			
Pass-through from the Michigan Department of State Police, Emergency Management Division:			
Hazardous Materials Emergency Preparedness 2004-2005	20.703	-	97
Total U.S. Department of Transportation			97
U.S. Department of Justice:			
Direct Award:			
COPS in School	16.710	2003 SHWX 0064	144,435
Total U.S. Department of Justice			144,435
Total Expenditures of Federal Awards			\$ 790,064

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Osceola, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Justice which provided the greatest amount of direct federal funding to the County during 2005.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement	\$ 830,985
Less State revenue classified as Federal	<u>(40,921)</u>
Total Federal Expenditures	<u>\$ 790,064</u>

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

93.563	Child Support Enforcement
16.710	COPS in School
83.548	Hazardous Materials Emergency Preparedness
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Reportable Conditions – Non-Compliance**Excess Expenditures Over Appropriations*****Finding 05-1***

Statement of Condition/Criteria: Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General Fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2005 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Special Revenue:			
Revenue Sharing Reserve	\$	- \$ 492,414	\$ (492,414)

Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to adopt a budget for the Revenue Sharing Reserve Fund during the year.

Recommendation: The County should adopt a budget for the Revenue Sharing Reserve Fund.

Management's Response – Corrective Action Plan: A budget will be adopted for this Fund in subsequent years.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

Reportable Conditions – Non-Compliance

Excess Expenditures Over Appropriations

Finding 04-1

Statement of Condition/Criteria: Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General Fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2004 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General:			
Other Expenditures	\$ 790,709	\$ 823,277	\$ (32,558)
Special Revenue:			
Revenue Sharing Reserve	-	175,831	(175,831)
EMS	1,151,876	1,205,717	(53,841)
Social Welfare	12,000	55,728	(43,728)
Housing Grant	-	58,120	(58,120)

Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The County should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Management's Response – Corrective Action Plan: The budget will be more closely monitored and budget amendments will be made accordingly.

Status: Similar instances of noncompliance were noted in the current year.

Bond Accounts – Circuit Court

Finding 99-1

Statement of Condition/Criteria: The outstanding bond listings for the Circuit Court have not been reconciled to the general ledger control accounts. The bond listing for Circuit Court should be reconciled in a timely manner. Failure to complete reconciliations could also lead to inaccuracies. Timely reconciliations are a required part of adequate internal control.

Effect: General ledger control accounts were not reconciled to the supporting bond listings.

Section II – Financial Statement Findings

Reportable Conditions – Non-Compliance

Cause of Condition: Failure to reconcile the general ledger control accounts to the bond listing.

Recommendation: We recommend that management reconcile the general ledger control accounts to the bond listing on a monthly basis.

Management's Response – Corrective Action Plan: Osceola County is aware of the need to reconcile the Circuit Court bond account. The process to balance these accounts has already begun and will be completed upon year's end.

Status: Issue has been corrected at year end.

Additional Information

COUNTY OF OSCEOLA, MICHIGAN

ADDITIONAL INFORMATION

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Honorable Chairman & Members
of the Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

Our report on our audit of the basic financial statements of the County of Osceola, Michigan, as of and for the year ended December 31, 2005, appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements which collectively comprise the County of Osceola, Michigan. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

May 25, 2006

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURE REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of December 31, 2005, the County has the following debt issues which apply to SEC Rule 15c2-12:

1. \$1,600,000 1998 Building Authority Bonds.
2. \$3,750,000 2004 Building Authority Bonds.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12:

A. State Equalized Valuation:

	50% of True Value
2005-	\$ 888,906,029
2004 -	826,439,091
2003 -	780,322,226
2002 -	700,343,370
2001 -	629,252,918
2000 -	578,532,624
1999 -	516,397,514
1998 -	459,473,855
1997 -	421,524,170
1996 -	385,383,377

Source: Osceola County

B. Taxable Valuation:

2005-	\$ 596,513,644
2004 -	566,650,491
2003 -	543,030,238
2002 -	511,089,219
2001 -	479,380,961
2000 -	452,860,768
1999 -	424,045,357

2005 Breakdown by Use

Residential	66.57%
Commercial	4.52%
Industrial	2.7%
Personal Property	10.83%
Agricultural	<u>15.38%</u>

TOTAL 100.00%

NOTE 2 - TABLES: (Continued)

<u>2005 Breakdown by Class</u>	
Real	89.17%
Personal	<u>10.83%</u>
TOTAL	100.00%

Source: Osceola County

C. County Tax Rates & Levies:

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
County Operating	6.4035	6.4138	6.4138	6.4636	6.4883
Mecosta-Osceola I/S/D	.2496	.2500	.2411	.2434	.2449
Wexford-Missaukee I/S/D	<u>.2730</u>	<u>.2749</u>	<u>.2761</u>	<u>.2792</u>	<u>.2809</u>
TOTAL ALL JURISDICITON	6.9261	6.9387	6.9862	6.9310	7.0141

Source: Osceola County

D. Tax Collection Record:

County of Osceola pays from a 100% Tax Payment Fund the delinquent real property taxes of all municipalities in the County, including the County. Delinquent personal property taxes are negligible. The County's fiscal year begins January 1. County taxes are due December 1 and become delinquent the following March 1.

<u>Year</u>	<u>Tax Levy*</u>	<u>Amount**</u>	<u>%</u>	<u>%</u>
2005	\$ 19,733,518	\$ 17,740,158	89.90%	-%
2004	18,851,394	16,949,069*	89.91%	100%
2003	17,262,790	15,466,753	89.60%	100%
2002	16,108,902	14,191,026	88.09%	100%
2001	15,855,306	14,011,240	88.36%	100%
2000	15,265,610	13,125,865	85.99%	100%
1999	14,177,977	12,326,540	86.94%	100%
1998	13,457,294	11,573,273	86.00%	100%
1997	13,256,204	11,466,616	86.50%	100%
1996	12,886,399	11,194,889	86.87%	100%
1995	12,095,165	10,283,004	85.02%	100%

*Includes real and personal property taxes.

** 246,923 additional levy.

Source: Osceola County

NOTE 2 - TABLES: (Continued)

E. General Fund Revenues and Expenditures:

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues & Transfers In	\$ 7,039,190	\$ 6,613,649	\$ 6,712,465	\$ 6,399,236
Expenditures & Transfers Out	<u>6,846,068</u>	<u>6,954,385</u>	<u>6,512,541</u>	<u>6,068,198</u>
Excess Revenues (Expenditures)	193,122	(340,736)	199,924	331,038
Beginning Fund Balance	<u>1,162,389</u>	<u>1,503,125</u>	<u>1,303,201</u>	<u>972,163</u>
ENDING FUND BALANCE	<u>\$ 1,355,511</u>	<u>\$ 1,162,389</u>	<u>\$ 1,503,125</u>	<u>\$ 1,303,201</u>

Source: Osceola County

F. Debt Statement:

	<u>Gross</u>	<u>Net</u>
Direct Debt of County:		
Building Authority	4,800,000	4,800,000
Capital Improvements	<u>\$ 725,000</u>	<u>725,000</u>
Total	<u>\$ 5,525,000</u>	<u>\$ 5,525,000</u>

In addition to the above, the County issues self-supporting Limited Tax Delinquent Fund Tax Notes each year which mature in 1 to 3 years. The last tax note was paid in full in March 2001. The County does not plan to issue tax notes in 2006.

Per Capita County Net Direct Debt	\$ 236.46
Percent County Net Direct Debt to TV	0.93%

OVERLAPPING DEBT OF COUNTY:

School Districts	\$ 25,654,044
Cities	341,000
Townships	-
Villages	1,877,000
Intermediate School Districts	<u>11,425</u>
Net Overlapping Debt	<u>\$ 27,883,469</u>
Net County and Overlapping Debt	<u>\$ 33,408,469</u>
Per Capita County Net Direct and Overlapping Debt	\$ 1,429.85
Percent Net Direct and Overlapping Debt to 2005 TV	5.60%

Source: County of Osceola and Municipal Advisory Council of Michigan



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DIVISION FOR CPA FIRMS

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MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Osceola County
Board of Commissioners
301 West Upton Avenue
Reed City, Michigan 49677

We have audited the financial statements of the County of Osceola for the year ended December 31, 2005, and have issued our reports thereon dated May 25, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Osceola's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Osceola's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Osceola's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Osceola's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the County of Osceola are described in Note 1. No new accounting policies were adopted and there were no changes to the application of any existing policies during the fiscal year. We noted no transactions entered into by the County of Osceola during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County of Osceola's financial reporting process (this is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the County of Osceola, either individually or in the aggregate, indicate matters that could have a significant effect on the County of Osceola's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Osceola or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Fixed Assets-Prior Year

While reviewing the fixed assets of the county, it was noted that some of the fixed assets are being posted to repair and maintenance accounts. We recommend more carefully monitoring the fixed assets to insure the fixed assets are posted to capital outlay accounts instead of repair and maintenance accounts.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the County of Osceola required to implement the Statement for the year ended December 31, 2009, GASB Statement 45 will the future accounting of post-employment health insurance costs as it relates to the amount the County will be required to pay for these benefits. Beginning in 2009, the County will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The County Board of Commissioners as well as County Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Summer Tax Levy

With the change in the funding of Revenue Sharing various issues have surfaced. The State allowed Counties to place an amount equal to 1/3 of their 2004 levy for three years from the 2004, 2005, and 2006 levies in a Reserve fund each January. To replace this 1/3 taken from the operating levy the County is allowed to levy a summer tax beginning in July of 2005. 1/3 of the 2005 levy, 2/3 of the 2006 levy and 3/3 of the 2007 levy would be summer collections. This process of funding would allow the Counties to still fund Revenue Sharing and still receive 100% of their operating levies each year. One area of concern is that the summer collections are not completely received in cash at year end. Furthermore, what is not collected is not received until settlement in the subsequent year. This creates a cash flow shortage which can be alleviated by borrowing from the Revenue Sharing Reserve Fund. It also creates a revenue recognition issue in that the revenue is not collected within 60 days of year end. It is collected when tax settlement occurs in March. In summary, because the legislature intended that the summer levy would make the Counties operating levy whole, we recommend that taxes receivable and taxes revenue be recorded to account for the uncollected summer levy at year end.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 25, 2006